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**The Most Critical Issues for PCS Entrepreneurs**

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## ***The Most Critical Issues for PCS Entrepreneurs***

1. **Establish blocks C and F exclusively for bidding by entrepreneurs.**
2. **Qualification as an entrepreneur based on revenue should be limited to the SBA proposed limit of \$40 million.**
3. **80% Financing.**
4. **Allow passive investment of up to 80% in entrepreneurs so long as entrepreneur retains 50.1% voting control and has day to day management control.**
5. **Restrict entrepreneurs to obtaining no more than half (40% of 80%) of their passive investment, from one source.**
6. **Additional benefits for minorities and women should be positive benefits to those groups and not penalties for other small businesses.**

1. **Establish blocks C and F exclusively for bidding by entrepreneurs.**

- Entrepreneur blocks fulfill the Congressional directive to make opportunities available to small business, women and minority business and rural telcos.
- Two-thirds of the spectrum will still be available to the larger, established telecommunications companies that already dominate local, long distance, and wireless telecommunications.
- Ten years after the breakup of AT&T, the concentration of control of the nation's telecommunications among the companies that comprised the former Bell System is staggering.
  - The cellular companies started by the Regional Bell Operating Companies, along with GTE, control about two thirds of the cellular business.
  - With AT&T acquiring McCaw, the largest cellular carrier, an oligarchy of nine companies will own more than 80 per cent of cellular -- 95% of the 50 markets with more than 1 million people.
  - The BOCs and GTE overwhelmingly control the local telephone business.
  - AT&T still has a majority of the long distance business.
- New competition from aggressive entrepreneurs is essential if PCS is to fulfill its promise to the American people to spur the economy, create good jobs and bring the information highway to the consumer at a reasonable price.

**2. Qualification as an entrepreneur based on revenue should be limited to the SBA proposed limit of \$40 million.**

- Staying within the SBA limit reinforces the legal justification of the entrepreneur blocks as complying with the Congressional directive.
  - Also permits the application of an established body of SBA law and regulations.
- Higher revenue limits open up the entrepreneur blocks to larger companies that clearly are not entrepreneurs in the sense intended by Congress and the Commission:
  - If qualification to bid for licenses in the entrepreneur's blocks is set at \$100 million in revenue, dozens of large telecommunications companies will be able to bid against small businesses. These include Nextel, Alltel, Dial Page, MFS, Park, Vanguard, and many others on the list attached to Bob Kyle's letter.
  - Some of these companies have links - which may fall outside of attribution rules - to much larger companies, i.e. Nextel to MCI and Comcast and Nextel, Dial Page and Cencom to Motorola.
  - Allowing these companies into the entrepreneur blocks frustrates the Congressional intent by substantially reducing -- rather than increasing -- the opportunities for small and women/minority-owned businesses.
  - Regardless of how an entrepreneur values a PCS market, a telephone, cellular or long distance company will be able to assign it an enormously greater value.
    - While the entrepreneur has to build a business from the ground up, telephone, cellular and long distance companies already have networks, support systems, personnel, brand names and marketing organizations that can be leveraged in support of their PCS licenses. They have much lower cost of capital and substantial volume discounts from vendors.
    - By controlling PCS, cellular, long distance and local telephone companies can defend their existing billions of dollars in revenues and millions of customers. Long distance companies pay more than 40 per cent of their revenues to telephone companies for local access charges. The access charge savings alone in the larger, most desirable, markets could be worth more to a major long distance company than the PCS business is worth to an entrepreneur.

### 3. **80% Financing.**

- Permitting entrepreneurs to finance 80% of their winning auction bids through the government is absolutely essential to the raising of capital.
- An entrepreneur can justify retaining majority control because investors are only putting up 20% of the cost of the license.
- For most serious entrepreneurs the critical issue is raising capital needed for deposits and to bid in the auction.
- Entrepreneurs can raise the capital and debt necessary to build and operate their systems and compete effectively against the BOCs and other large telecommunications companies.
- Once licenses are won, enormous amounts of funding will be available.
  - Equipment, construction and operating expenses will be financed through manufacturers and major institutional lenders, in much the same way as cellular was financed.
  - This is called “150% financing” - one third for equipment, one third for construction and one third for operating funds.
  - Major PCS manufacturers, including Motorola and Northern Telecom, already have presented financing plans to the Small Business PCS Association and to a number of us, individually.
  - No significant business failure occurred in cellular where this form of financing was used -- and spectacular successes are numerous (i.e. McCaw).

4. **Allow passive investment of up to 80% in entrepreneurs so long as entrepreneur retains 50.1% voting control and has day to day management control.**

Examples:

- Permit entrepreneurs to be the controlling and operating general partners in limited partnerships where 80% of the equity is held by others.
- Permit forms of convertible debt so long as conversion does not change voting or management control. For example, money advanced by an investor prior to the auction, for deposits and auction bids, could be in the form of a convertible debenture, where the convertibility was conditioned on winning licenses in the auction, but could not result in a change of voting or management control. This would facilitate return of the funds to the investor with no serious tax issues in the event the entrepreneur was not successful in the auction and would improve the chances of obtaining the funds.
- Permit use of more than one class of stock so that voting control could be exercised with one class of stock while providing greater dividend and dissolution rights in another class of stock.

5. **Restrict entrepreneurs to obtaining no more than half (40% of 80%) of their passive investment from one source.**

- Do not put major obstacles in the way of the small businesses by imposing overly onerous investment rules, such as limiting investment from any one source to 20%. This would require each small business to obtain at least four investors to achieve 80% passive investment and that is extremely difficult.
- However, permitting any entrepreneur to obtain more than half of its investment from one source invites sham applicants and gaming of the rules.
  - No serious entrepreneur would want to be dominated by one investor.
  - Permitting entrepreneurs to make deals with the large telephone companies for investment and later for control simply defeats the purpose of the entrepreneur blocks and other restrictions imposed on cellular companies.
  - Why permit the BOCs to get in through the back door?

**6. Additional benefits for minorities and women should be positive benefits to those groups and not penalties for other small businesses.**

- Do not adopt benefits for women and minorities that penalize other small business - such as allowing women and minority businesses to obtain all their investment from one source while substantially restricting other small businesses.
  - Additional benefits for minorities and women were not required by Congress.
  - Such benefits may not be necessary to achieve the desired result of creating the opportunity to participate in PCS if the proposals on the previous pages are adopted.
- Any benefits extended to women and minorities should be no more than an expansion of a benefit already available to small business.
  - For example, there is probably no harm in bidding credits because all small businesses have a benefit by being able to bid for frequency blocks for which large companies cannot bid. Bidding credits simply lower the price further for women and minorities.
    - **Bidding credits are not substitutes for entrepreneur's blocks. They do not insure opportunity.**
    - **Bidding credits may have an additional benefit by creating incentives to bid for less desirable licenses because they could be obtained at lower than "market" prices.**